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BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER, CHARIMAN
WILLIAM A. MUNDELL
MIKE GLEASON
KRISTIN K. MAYES
BARRY WONG

IN THE MATTER OF THE APPLICATION OF
ARIZONA PUBLIC SERVICE COMPANY FOR
A HEARING TO DETERMINE THE FAIR
VALUE OF THE UTILITY PROPERTY OF THE
COMPANY FOR RATEMAKING PURPOSES,
TO FIX A JUST AND REASONABLE RATE OF
RETURN THEREON, TO APPROVE RATE
SCHEDULES DESIGNED TO DEVELOP SUCH
RETURN, AND TO AMEND DECISION NO.
67744

Docket No. E-01345A-05-0816
E-01345A-05-0826
E-01345A-05-0827

**NOTICE OF FILING
TESTIMONY SUMMARY**

Southwest Energy Efficiency Project, through its undersigned counsel, hereby provides
notice that it has this day filed the testimony summary of Jeffrey A. Schlegel in connection with
the above-captioned matter.

Arizona Corporation Commission
DOCKETED

OCT 20 2006

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1 DATED this 20th day of October, 2006.

2 ARIZONA CENTER FOR LAW IN
3 THE PUBLIC INTEREST

4 By 

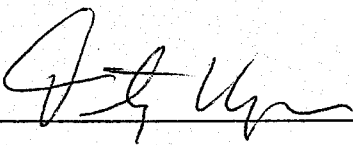
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Resource Advocates

9 ORIGINAL and 13 COPIES of
10 the foregoing filed this 20th day
of October, 2006, with:

11 Docketing Supervisor
12 Docket Control
13 Arizona Corporation Commission
1200 W. Washington
14 Phoenix, AZ 85007

15 COPIES of the foregoing
16 transmitted electronically
this 20th day of October, 2006, to:

17 All Parties of Record

18 
19

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER, Chairman
WILLIAM A. MUNDELL
MIKE GLEASON
KRISTIN K. MAYES
BARRY WONG

IN THE MATTER OF THE APPLICATION
OF ARIZONA PUBLIC SERVICE COMPANY
FOR A HEARING TO DETERMINE THE
FAIR VALUE OF THE UTILITY PROPERTY
OF THE COMPANY FOR RATEMAKING
PURPOSES, TO FIX A JUST AND
REASONABLE RATE OF RETURN
THEREON, TO APPROVE RATE
SCHEDULES DESIGNED TO DEVELOP
SUCH RETURN, AND TO AMEND
DECISION NO. 67744.

DOCKET NOS. E-01345A-03-0816
E-01345A-05-0826
E-01345A-05-0827

Summary of Testimony

Jeff Schlegel
Southwest Energy Efficiency Project (SWEEP)

October 20, 2006

Summary of Testimony of Jeff Schlegel, SWEEP

The Commission should increase energy efficiency in the Arizona Public Service Company (APS) territory to achieve significant and cost-effective benefits for APS customers, the electric system, the economy, and the environment.

Specifically, the Commission should set APS DSM energy efficiency program goals in the form of an Energy Efficiency Standard (EES). The EES should require APS DSM energy efficiency programs to: (1) achieve energy savings equal to at least 5% of total energy resources needed to meet retail load in 2010, and at least 15% in 2020; and (2) reduce summer peak demand by at least 5% of total capacity resources needed to meet retail peak demand in 2010, and at least 15% in 2020. The goals of the EES are meaningful and realistic, and they can be achieved with cost-effective energy efficiency programs.

Achieving the goals of the Energy Efficiency Standard would save consumers and businesses \$1.4 billion during 2005-2020, eliminate the need for about 1,000 MW of new power plants by 2020 and the associated power line and pipeline infrastructure costs, provide 1,600 GWh of cumulative annual energy savings in 2010 and almost 7,000 GWh in 2020, reduce average annual load growth in retail energy and summer peak demand by 32% (from 3.8% to 2.6%), reduce electricity price spikes and the risks of natural gas price volatility, save precious water, and reduce air pollution and the carbon emissions that cause global warming. These are benefits that are important to achieve. (See Exhibit JS-1)

Other states and utilities have achieved energy savings equivalent to or greater than the EES goals that SWEEP proposes. And similar savings goals are supported by other policy makers in the west. Meeting the EES goals in Arizona would contribute substantially to the achievement of the adopted goal of the Western Governors Association (WGA) to increase energy efficiency 20% by 2020. Also, in Arizona in August 2006, a diverse group of 35 Arizona stakeholders in the Climate Change Advisory Group provided a consensus recommendation to set electric energy savings goals of 5% savings by 2010 and 15% savings by 2020 through DSM programs, which is equivalent to the SWEEP EES proposal.

It is essential to set goals to implement Commission policy. Clear, multi-year goals help utilities, stakeholders, and customers understand how the future electric system will meet future customer load, in a manner consistent with the policies of the Commission. SWEEP believes it is important to focus primarily on the *effects and impacts* of energy and utility policies for setting goals, not primarily on the funding or spending levels. Simply spending money, even cost-effectively, should not be the primary focus of future goals.

The existing Commission-approved DSM energy efficiency programs should be expanded to achieve the goals of the EES. While some additional DSM energy efficiency programs or program elements may be needed to achieve the EES goals, and may also be valuable for providing additional benefits to APS customers, the primary mechanism for achieving the EES goals should be the expansion of existing programs already approved by the Commission. The existing programs are providing significant net benefits (over \$4.2 million of net economic benefits in 2005), and the net benefits continue to grow as more customers participate in the cost-effective DSM programs.

1 The Commission should authorize adequate funding to achieve the goals of the EES.
2 SWEEP estimates that energy efficiency funding of \$0.002 per kWh of retail energy sales
3 (2 mills) will be necessary to achieve the EES goals. In 2007, the third year of the 2005-
4 2007 Portfolio Plan, total DSM energy efficiency funding should be increased from about
5 \$25 million to \$38 million, an increase of about \$13 million. In 2008 and future years,
6 total DSM energy efficiency funding should be equivalent to \$0.002 (2 mills) per kWh of
7 retail energy sales, which would be \$56.8 million in 2008. The additional DSM funding
8 for 2008 would amount to \$40.8 million (the amount above the \$16 million per year
9 authorized in Decision No. 67744). Funding for any DSM demand response and load
10 management programs should be in addition to the energy efficiency program funding.

11
12 Inadequate funding for DSM programs and the resulting underachievement of cost-
13 effective energy efficiency would lead to higher total costs for customers.

14
15 Energy efficiency funding and cost recovery for the additional DSM funding and the total
16 DSM funding could be accomplished through funding in base rates, a DSM adjustment
17 mechanism, a system benefits surcharge, amortizing or capitalizing the DSM investments
18 over time (to reduce rate impacts in early years), or a combination of funding mechanisms.
19 SWEEP does not have a strong preference for one particular mechanism. SWEEP believes
20 it would be best to build on the existing Commission-approved funding mechanisms (base
21 rates and a DSM adjustor) and use a combination of mechanisms going forward.

22
23 APS should file an implementation plan to achieve the goals of the EES, covering the
24 2008-2020 program years, in the spring of 2007, at the same time APS refiles the Non-
25 Residential portion of its DSM Portfolio Plan (per Commission order). The EES
26 Implementation Plan should be developed by APS with input from and review by the
27 Collaborative DSM Working Group, which includes Staff and interested parties. The EES
28 Implementation Plan would be reviewed by Staff, and then be reviewed and approved by
29 the Commission prior to implementation for 2008 and future years.

30
31 APS may be able to meet the requirement set forth in Decision 67744 to spend \$48M on
32 Commission-approved DSM programs by the end of 2007, depending on customer and
33 market response to recently-implemented programs. However, it is possible that due to the
34 newness of the programs, the time lags associated with the implementation of some large
35 projects, and the delays in getting the programs in the field, including Staff review and
36 Commission approval taking longer than expected, APS may not meet the spending
37 requirement. As APS proposed,¹ any underspending of the \$48M through 2007 should be
38 carried over and spent in subsequent years, in addition to the annual budget for each of the
39 future program years. SWEEP requests an explicit Commission order on this issue in this
40 proceeding, in case APS does not meet its \$48M spending requirement.

41
42 SWEEP supports the proposed performance incentive, including the basis of 10% of net
43 benefits (APS share), and the cap of 10% of spending. This mechanism was reviewed and
44 supported by the DSM collaborative, and was included in the APS DSM Portfolio Plan.

45

¹ Rebuttal Testimony of Teresa Orlick, APS, p. 3.